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C. DUKES SCOTT  
EXECUTIVE DIRECTOR

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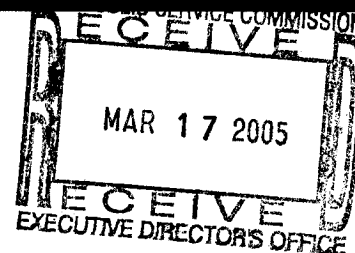
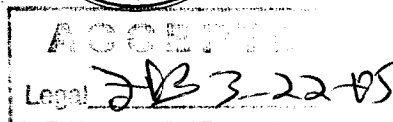


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DAN E. ARNETT  
CHIEF OF STAFF

March 16, 2005

Charles L. A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210



Dear Charlie:

Recently the Office of Regulatory Staff presented the Commission with a request for auditing services for the Universal Service Fund. In order to provide the Commission with more detail about this request I have attached the scope of work for two phases of the audit. Because no financial statements have previously been prepared, the first phase entails hiring a consulting firm to compile GAAP basis financial statements in order for an audit to be conducted. We will procure this service as an emergency procurement under the Consolidated Procurement Code. The Code allows for emergency procurements in situations where there is a threat to the "critical economy and efficiency" of the state. In light of the recent LAC audit and in consideration of the amount of money that flows through the fund, we feel that there is an immediate need to identify and correct any deficiencies as soon as possible.

The second phase of this project comprises the actual audit (see attached scope of work). These two activities must be conducted separately as the entity developing the financial statements cannot audit those same statements. While there are regulations that exempt auditing services from the Consolidated Procurement Code, we feel that it is in the best interest of all involved to procure these services through an RFP process. We would like to begin the RFP process immediately so that we will be in a position to award the audit contract as soon as the GAAP financial statements are complete. At this point we do not know the actual cost of the audit, but both phases combined should not exceed \$200,000.

Please let me know if you need additional information.

Sincerely,

C. Dukes Scott

Cc: Parties of Record  
Docket No. 1997-239-C

Attachments

## **USF Financial Audit**

### **Phase I and Phase II**

#### **Phase I:**

It is the intention of the Office of Regulatory Staff to engage the services of a consulting firm to perform the following work via emergency procurement:

Compile, from records to be provided by the Public Service Commission, the Office of Regulatory Staff, the State Treasurer's Office and the Office of the Comptroller General, GAAP basis financial statements, with disclosures, for the South Carolina Universal Service Fund (USF). The desired financial statements will include the activity of the USF from its inception in October, 2001 through December 31, 2004. Office of Regulatory Staff will be able to provide limited assistance in the conduct of this engagement.

#### **Phase II:**

It is the intent of the Office of Regulatory Staff to procure services for a qualified auditor to perform an independent third party audit of the Universal Service Fund pursuant to Commission guidelines. These services will be procured through competitive procurement. The scope of the audit is listed below.

### **Scope of the South Carolina Universal Service Fund (SCUSF) Audit**

The Office of Regulatory Staff (ORS) is seeking professional audit services related to its administration of the South Carolina, Universal Service Fund (USF). As such, we are seeking proposals from Certified Public Accounting firms for the conduct of financial and compliance audits of the USF as of December 31, 2004 and for the thirty-nine (39) months then ended.

One of the objectives of this audit is to ensure that the SCUSF was managed in accordance with "Guidelines for the SCUSF" and "SCUSF Administrative Procedures", both established by the South Carolina Public Service Commission (Docket No. 97-239-C – Order No. 2001-954). Accordingly, the successful bidder shall audit the procedures, including collections, deposits, payments, and adjustments, utilized in the administration of the Fund from its inception on October 1, 2001 through December 31, 2004.

The Contractor shall also design audit procedures to determine whether:

- telecommunication service providers were billed the appropriate amount for SCUSF based upon the services they provided and data requirements submitted to the fund Administrator;

- telecommunication service providers are paying the appropriate amount for the SCUSF and that the funds properly and timely deposited;
- the fund Administrator is making the appropriate calculations for support payments and submitting support payment requests to all eligible telecommunication service providers
- funds are properly distributed by the Administrator;
- adjustments that regulate the size of the fund are appropriate and properly calculated and implemented.

ORS personnel and/or representatives of the Public Service Commission will be available, on a limited basis, to assist the successful bidder in the performance of this audit.